



Memorandum # 7/2003

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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MEMORANDUM

To: All Retirement Boards

From: Joseph Connarton, Executive Director

Subject: Hedge Fund Guidelines

Date: January 14, 2003

When the full Commission approved the issuance of guidelines for hedge fund investment last October, it did so after months of careful consideration and serious debate. Its decision was not made lightly or easily. The Commission felt strongly that hedge funds were not an appropriate vehicle for all retirement boards and that only the largest of the systems should avail themselves of this option. The Commission also felt that PERAC should develop and implement a system of strong regulatory procedures aimed at ensuring that any systems pursuing hedge fund investments do so in a prudent and responsible manner consistent with the guidelines.

Accordingly, Guideline #2 states that only systems with portfolio assets in excess of \$250 million may request authorization to invest in hedge funds. Setting a limit such as this is understandably controversial, but no board or consultant has challenged our research that indicates that few if any public pension funds of that asset size or smaller currently invest, or plan to invest, in hedge funds.

Guideline #6 requires a qualifying retirement board to submit a letter to PERAC prior to commencing a hedge fund search. This letter should explain the system's objectives from hedge funds and how the system intends to achieve those objectives in terms of structure (separate funds or funds-of-funds), selection of strategies, diversification, etc. After assuring PERAC that its approach to hedge funds is consistent with the guidelines, the system may commence its search.

Since it has come to our attention that some boards have initiated hedge fund searches despite being clearly ineligible or without following the proper procedure, I must stress that PERAC will not approve any hedge fund managers selected by a board that fails to satisfy or comply with any of the hedge fund guidelines.